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South Carolina
Division of General Services

PROCUREMENT AUDIT AND CERTIFICATION

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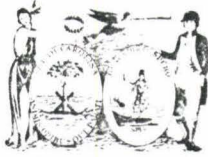
SOUTH CAROLINA STATE UNIVERSITY

AGENCY

JANUARY 1, 1989 - FEBRUARY 29, 1992

DATE

STATE OF SOUTH CAROLINA
State Budget and Control Board
DIVISION OF GENERAL SERVICES



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JAMES J. FORTH, JR.
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CHAIRMAN, SENATE FINANCE COMMITTEE

WILLIAM D. BOAN
CHAIRMAN, WAYS AND MEANS COMMITTEE

LUTHER F. CARTER
EXECUTIVE DIRECTOR

March 13, 1992

Mr. Richard W. Kelly
Director
Division of General Services
1201 Main Street, Suite 420
Columbia, South Carolina 29201

Dear Rick:

I have attached South Carolina State University's procurement audit report and recommendations made by the Office of Audit and Certification. I concur and recommend the Budget and Control Board grant the University a three (3) year certification as noted in the audit report.

Sincerely,

James J. Forth, Jr.
Assistant Division Director

JJF/jjm

Attachment

SOUTH CAROLINA STATE UNIVERSITY
PROCUREMENT AUDIT REPORT

JANUARY 1, 1989 - JUNE 30, 1991

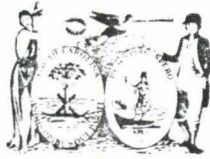
FOLLOW-UP AUDIT PERIOD
JULY 1, 1991 - FEBRUARY 29, 1992

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NOTE: The University's responses to issues noted in this report have been inserted immediately following the issues they refer to.

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LUTHER F. CARTER
EXECUTIVE DIRECTOR

March 10, 1992

Mr. James J. Forth, Jr.
Assistant Division Director
Division of General Services
1201 Main Street, Suite 600
Columbia, South Carolina 29201

Dear Jim:

We have examined the procurement policies and procedures of South Carolina State University for the period January 1, 1989 through February 29, 1992. As part of our examination, we studied and evaluated the system of internal control over procurement transactions to the extent we considered necessary.

The evaluation was to establish a basis for reliance upon the system of internal control to assure adherence to the Consolidated Procurement Code and State and University procurement policy. Additionally, the evaluation was used in determining the nature, timing and extent of other auditing procedures necessary for developing an opinion on the adequacy, efficiency and effectiveness of the procurement system.

The administration of South Carolina State University is responsible for establishing and maintaining a system of internal control over procurement transactions. In fulfilling

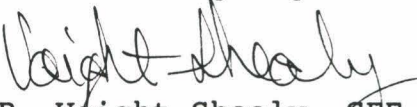
this responsibility, estimates and judgements by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance of the integrity of the procurement process, that affected assets are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and are recorded properly.

Because of inherent limitations in any system of internal control, errors or irregularities may occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

Our study and evaluation of the system of internal control over procurement transactions, as well as our overall examination of procurement policies and procedures, were conducted with professional care. However, because of the nature of audit testing, they would not necessarily disclose all weaknesses in the system.

The examination did, however, disclose conditions enumerated in this report which we believe need correction or improvement.

Corrective action based on the recommendations described in these findings will in all material respects place South Carolina State University in compliance with the South Carolina Consolidated Procurement Code and ensuing regulations.


R. Voight Shealy, CFE, Manager
Audit and Certification

INTRODUCTION

We conducted an examination of the internal procurement operating procedures and policies of South Carolina State University. Our on-site review was conducted September 11, 1991 through October 18, 1991 and was made under authority as described in Section 11-35-1230(1) of the South Carolina Consolidated Procurement Code and Regulation 19-445.2020.

The examination was directed principally to determine whether, in all material respects, the procurement system's internal controls were adequate and the procurement procedures, as outlined in the Internal Procurement Operating Procedures Manual, were in compliance with the South Carolina Consolidated Procurement Code and its ensuing regulations.

Additionally our work was directed toward assisting the University in promoting the underlying purposes and policies of the Code as outlined in Section 11-35-20, which include:

- (1) to ensure the fair and equitable treatment of all persons who deal with the procurement system of this State
- (2) to provide increased economy in state procurement activities and to maximize to the fullest extent practicable the purchasing values of funds of the State
- (3) to provide safeguards for the maintenance of a procurement system of quality and integrity with clearly defined rules for ethical behavior on the part of all persons engaged in the public procurement process

BACKGROUND

Section 11-35-1210 of the South Carolina Consolidated Procurement Code states:

The (Budget and Control) Board may assign differential dollar limits below which individual governmental bodies may make direct procurements not under term contracts. The Division of General Services shall review the respective governmental body's internal procurement operation, shall verify in writing that it is consistent with the provisions of this code and the ensuing regulations, and recommend to the Board those dollar limits for the respective governmental body's procurement not under term contract.

Section 11-35-1230(1) of the South Carolina Consolidated Procurement Code states:

In procurement audits of governmental bodies thereafter, the auditors from the Division of General Services shall review the adequacy of the system's internal controls in order to ensure compliance with the requirements of this Code and the ensuing regulations.

Most recently, on March 27, 1990, the Budget and Control Board granted State University certification as follows:

<u>Category</u>	<u>Requested Limit</u>
1. Goods and Services	\$25,000
2. Information Technology	10,000
3. Consultant Services	10,000

Our audit was performed primarily to determine if recertification is warranted. Additional certification was not requested.

SCOPE

Our examination was performed in accordance with Generally Accepted Auditing Standards as they apply to compliance audits. It encompassed a detailed analysis of the internal procurement operating procedures of South Carolina State University and the related policies and procedures manual to the extent we deemed necessary to formulate an opinion on the adequacy of the system to properly handle procurement transactions up to the requested certification limits.

We systematically selected samples for the period July 1, 1989 - June 30, 1991 of procurement transactions for compliance testing and performed other audit procedures that we considered necessary to formulate this opinion. As specified in the Consolidated Procurement Code and related regulations, our review of the system included, but was not limited to, the following areas:

- (1) All sole source and emergency procurements and trade-in sales for the audit period
- (2) Purchase transactions for the period July 1, 1989 through June 30, 1991 as follows:
 - a) Two hundred seventeen systematically selected procurement transactions, each exceeding \$500.00
 - b) Twenty additional sealed bids
 - c) A block sample of all purchase orders issued to vendors with names beginning with A, B & G for fiscal year 1990/91
- (3) Seventeen permanent improvement projects for compliance with the Manual for Planning and Execution of State Permanent Improvements

- (4) Minority Business Enterprise Plans and reports
- (5) Information Technology Plan
- (6) Procurement procedures
- (7) Property management and fixed asset procedures
- (8) Supply warehouse management procedures
- (9) Work order procedures
- (10) Procurement staff and training

FOLLOW-UP SCOPE

We performed an extensive follow-up audit March 3-4, 1992, during which we verified South Carolina State University's corrective action for each recommendation that we made in this report. Also, we tested the following additional transactions:

- 1) All sole source and emergency procurements and trade-in sales for the period July 1, 1991 through February 29, 1992
- 2) All sealed bids issued from January 1, 1992 through February 29, 1992
- 3) All purchase orders issued since December 1, 1991 to vendors with names beginning with F, G, M and S.

Please see page 21 of this report for our follow-up results.

SUMMARY OF AUDIT FINDINGS

Our audit of procurement management at South Carolina State University (hereinafter referred to as State University) produced findings and recommendations in the following areas:

	<u>PAGE</u>
I. <u>Sole Source and Emergency Procurements</u>	
A. <u>Inappropriate Sole Sources</u>	9
Seventeen procurements made as sole sources were inappropriate.	
B. <u>Inappropriate Emergencies</u>	10
Six transactions were inappropriate as emergencies.	
C. <u>Emergencies Caused by Lack of Planning</u>	11
Thirteen emergency transactions could have been avoided through better planning.	
II. <u>General Procurement Activity Exceptions</u>	
A. <u>Procurements Made Without Competition</u>	12
Fourteen procurements were not supported by evidence of solicitations of competition, sole source or emergency procurement determinations.	
B. <u>Inadequate Solicitation of Competition</u>	13
On one transaction State University did not solicit the required number of bids.	

C. Low Bidders Improperly Rejected 14

On two contracts, the low bidders were inappropriately rejected and the contracts were awarded to the next low bidders.

D. Unauthorized Change Order 15

State University changed a Materials Management Office contract by adding \$14,395.20 without their approval.

III. Construction 15

One contract fell under the definition of a permanent improvement project, but the University did not establish it as such.

IV. Other Audit Comments

A. Commodity Management System Needed 16

State University should implement a commodity management system to identify frequently procured items. Annual contracts could be established to save money and time.

B. General Observations Regarding Bidding Practices 17

Five deficiencies were noted in the bidding practices at State University.

C. Vending Management Contract 19

At the end of the current contract for vending management services (8/15/94), a new contract should be established using the procedures of the Procurement Code.

RESULTS OF EXAMINATION

I. Sole Source and Emergency Procurements

We examined the quarterly reports of sole source and emergency procurements and trade-in sales for the period January 1, 1989 through June 30, 1991. This review was performed to determine the appropriateness of the procurement actions taken and the accuracy of the reports submitted to the Division of General Services as required by Section 11-35-2440 of the Consolidated Procurement Code. The following problems were noted:

A. Inappropriate Sole Sources

We noted seventeen sole source procurements which we believe to be inappropriate.

<u>PO#</u>	<u>Amount</u>	<u>Determination Date</u>	<u>Description</u>
1) 903714	\$ 1,831.20	11/23/88	Typewriter
2) 904862	725.00	02/10/89	Weight lifting equipment
3) 905686	1,407.00	03/15/89	Honor cords
4) 906175	5,000.00	05/04/89	Rebuilt bus engine
5) 906429	834.75	02/23/89	Typewriter
6) 906531	820.58	05/11/89	Typewriter
7) 906604	2,558.85	05/31/89	Printer
8) 1670	3,480.00	08/30/89	Coin operated copier
9) 3907	691.95	12/12/89	Hard drive
10) 106525	1,500.00	04/29/91	Consultant
11) 107234	4,766.48	06/28/91	Printing services
12) 7443	1,569.75	04/20/90	Software
13) 6551	2,520.00	04/23/90	Laptop computer
14) 102242	2,248.05	09/26/90	Typewriter
15) 102085	1,938.56	05/08/90	Software
16) 105238	861.00	02/14/91	Modem and cables
17) 105123	2,100.00	02/28/91	Telecommunications billing service

Section 11-35-1560 requires that sole source items be unique and only available from a single source. We believe that competition was available for each of these transactions.

We recommend these transactions be competitively bid in the future.

UNIVERSITY RESPONSE

We concur with the auditors recommendations; therefore, we will ensure that the corrective action recommended in the audit report be taken to eliminate inappropriate sole source procurements.

B. Inappropriate Emergencies

Based on our review of the written determinations and other documents in the files, six transactions made as emergencies were inappropriate. They were:

<u>PO#</u>	<u>Date</u>	<u>Amount</u>	<u>Description</u>
1) 904596	02/03/89	\$ 2,500.00	Installation of computer network
2) 904598	02/03/89	3,495.00	Software
3) 904599	02/06/89	2,822.00	Printers
4) 905882	04/18/89	10,230.00	Furniture
5) 106243	03/13/91	1,364.01	Tires
6) 106607	04/24/91	12,214.70	Printing services

Each of these transactions should have been handled under normal competitive procedures outlined in the Procurement Code. Furthermore, on PO #106607 some of the invoices preceeded the date of the award and the date of the emergency declaration. As such, these invoices are unauthorized and must be ratified in accordance to Regulation 19-445.2015.

We recommend these types of transactions be competitively bid in the future.

UNIVERSITY RESPONSE

PO# 106607 Letter of Ratification for the unauthorized printing is attached.

PO# 905882 Future transactions will be handled under normal competitive procedures as outlined by the Procurement Code.

We concur with the auditors findings and will comply with the Consolidated Procurement Code in the future.

C. Emergencies Caused by Lack of Planning

Our review of emergency procurements revealed thirteen emergency transactions which we believe were caused by a lack of planning by the various departments at State University. Due to short delivery requirements, by the time the procurement office received the requisitions, they had no choice other than to process the transactions as emergencies. The transactions were as follows:

	<u>PO#</u>	<u>PO Date</u>	<u>Amount</u>	<u>Description</u>
1)	904270	01/27/89	\$ 7,798.34	Uniform rentals
2)	900418	02/25/88	25,000.00	Printing services
3)	3074	11/13/89	12,817.00	Printing services
4)	106460	04/13/91	13,664.00	Tour buses
5)	937	08/14/89	25,575.00	Printing services
6)	5770	04/05/90	3,670.50	Memo pads & gift boxes
7)	76390	06/22/90	2,567.00	Blanket bond
8)	5447	03/13/90	1,942.50	Honor cords
9)	3491	11/26/90	31,500.00	Organ
10)	3894	12/17/90	5,000.00	Sound equipment
11)	101679	09/10/90	3,800.00	Masonry services @ stadium
12)	101985	09/25/90	3,885.00	Remove debris & grade dirt at stadium
13)	105454	03/14/91	1,613.85	Honor cords

We recommend State University stress the importance to its departments of allowing sufficient lead time to process these transactions under the competitive procedures of the Procurement

Code. Most of these transactions could have been competitively bid and awarded in less than two weeks.

UNIVERSITY RESPONSE

Persons responsible for initiating purchases will be informed via memorandum. Workshops will also be conducted for faculty and staff to stress the importance of proper planning in procuring goods and services and to inform the users of the requirements for various categories of purchases.

II. General Procurement Activity Exceptions

Among other tests, we reviewed random samples from each of the four procurement areas defined by the Consolidated Procurement Code. In all, we tested samples of 237 transactions. Our findings are listed below.

A. Procurements Made Without Competition

We noted fourteen procurements that were not supported by evidence of solicitations of competition or sole source or emergency procurement determinations. They were as follows:

<u>PO/Check#</u>	<u>PO Date</u>	<u>Amount</u>	<u>Description</u>
1) PO# 101071	08/22/90	\$4,526.00	Travel services
2) Check# 51581	09/25/89	3,890.08	Financial services
3) Check# 53296	11/17/89	1,505.78	Travel services
4) Check# 53005	11/08/89	1,272.58	Consultant services
5) Check# 63330	10/04/90	3,000.00	Transportation services
6) Check# 50229	07/26/89	2,730.00	Transportation services
7) Check# 62904	09/24/90	1,009.12	Consultant services
8) PO# 7285	04/24/90	3,900.00	Software training
9) PO# 102749	01/15/91	6,000.00	Software training
10) Check# 68090	02/19/91	3,261.45	Travel services
11) IDT# 9112883	05/20/91	21,286.46	Services to perform a study
12) PO# 2307	09/28/89	3,906.65	Electrical supplies
13) PO# C000049	05/24/90	1,450.00	Insulate ductwork
14) PO# C100003	08/26/90	8,800.00	Furnish & install heating and cooling units

Some of the transactions above such as the transportation services and software training possibly could have been handled as sole source procurements. State University incorrectly assumed that travel agent services are exempt from the Procurement Code. The transaction for electrical supplies possibly was an emergency since it occurred within two weeks after Hurricane Hugo.

We recommend that State University ensure that either the appropriate levels of competition are solicited or sole source or emergency procurement determinations are prepared if appropriate. All non exempt procurements must be made using one of the source selection methods authorized by the Procurement Code.

UNIVERSITY RESPONSE

The University will ensure that the appropriate levels of competition are solicited, and where appropriate a sole source or emergency form is prepared on the above type procurements.

B. Inadequate Solicitation of Competition

Check #65072 for roof repairs totalling \$18,800 was only supported by two verbal solicitations. Regulation 19-445.2035 (A)(3) requires a minimum of 10 sealed bid solicitations for transactions of \$10,000.00 or more.

We recommend State University comply with this regulation in the future.

UNIVERSITY RESPONSE

We will comply with the Procurement Code Regulations in the future.

C. Low Bidders Improperly Rejected

On two unrelated procurements, the low bidders were improperly rejected. In the first instance, State University specified "ASAP" as the required delivery date. When the award was made, it was made to the vendor with the shortest delivery date. If the delivery date was so critical, a specific date should have been put in the bid solicitation. "ASAP" is a vague requirement and in this case was not a sufficient reason to reject the low bidder. Also, the University has been unable to provide to us the low bidder's bid form. This transaction occurred on purchase order number C100492 for electrical supplies in the amount of \$2,248.89.

For the second instance, an emergency procurement was made for seven personal computers. Written bids were solicited from three vendors. The low bidder was rejected because the vendor had only been in business for a year. This is not a criteria for rejection under Regulation 19-445.2070. This transaction occurred on purchase order number 1825 in the amount of \$18,666.69. The University would have saved \$633.08 if the contract was awarded to the low bidder.

We recommend State University evaluate its rejection criteria and bring them in accordance to Regulations 19-445.2065 and 19-445.2070.

UNIVERSITY RESPONSE

All future bid awards will be evaluated and awarded according to Regulations 19-445-2065 and 19-445-2070 of the Consolidated Procurement Code.

D. Unauthorized Change Order

A change order was made by State University on a printing contract issued by the Materials Management Office (Ref PO# 100959). The contract was originally issued at \$49,182.70 for printing of the University yearbook. State University added \$14,395.20 without the approval of the Materials Management Office.

While the State Printing Officer acknowledges that large changes to University yearbook printing contracts are not unusual, the changes should have been reviewed and approved by him since he issued the original contract. Since this did not occur, the change is unauthorized and must be submitted to the Materials Management Office for ratification in accordance to Regulation 19-445.2015.

We recommend that all material changes to contracts issued by the Materials Management Office be approved by them prior to any commitments being made.

UNIVERSITY RESPONSE

A Letter of Ratification Request is attached. Future changes to contracts issued by the Materials Management Office will be forwarded for approval prior to amending the purchase order.

III. Construction

Our review of construction procurements involved procurements of goods and services related to construction,

construction related professional service contracts and construction contracts. This review included seventeen permanent improvement contracts.

We noted one contract which should have been established as a permanent improvement project as follows.

<u>PO#</u>	<u>PO Date</u>	<u>Amount</u>	<u>Description</u>
7410	07/22/90	\$30,727.00	Remove & install hot water heater

The purpose of the permanent improvement project process is to capture the amount of funds being spent on a statewide level for repairs, renovations, maintenance and construction costs of the State's buildings. This information is used in planning future funding requirements.

We recommend State University adhere to the approved threshold for permanent improvement projects.

UNIVERSITY RESPONSE

The University will adhere to the approved threshold on all future permanent improvement projects.

IV. Other Audit Comments

Based on observations we made during the audit, we noted certain things that are not necessarily audit exceptions, but are areas we believe can be improved. As such we offer the following comments.

A. Commodity Management System Needed

While we were performing a test of sequential purchase orders, we noticed a number of small purchases each less than \$500 being made for the same items. These purchases were being made with some frequency over regular intervals. Each purchase was made in compliance with the Procurement Code.

However, through a commodity management system, State University could identify these types of purchases and establish annual contracts through competitive sealed bids. An annual contract should result in lower prices since vendors are guaranteed larger quantities. It should also result in less workload on the Procurement Office.

We recommend that State University institute a commodity management system.

UNIVERSITY RESPONSE

A Commodity Management System is in the process of being implemented. We will review the commodity system on an annual basis and establish annual commodity contracts for the new fiscal year.

B. General Observations Regarding Bidding Practices

During our review of various bid files, we noted some deficiencies which we believe should be improved. These improvements will result in more effective bidding practices.

First of all, State University does not document when sealed bids are received. Some type of documentation should be kept showing that bids were received prior to bid opening. This is usually accomplished through a date/time stamp machine.

Secondly, no bid list is maintained of the bidders solicited. State University uses the bid tabulation form to document the vendors which bids were solicited from. A number of bidders may be listed on the bid tabulation that did not respond. We suggest a separate list be used for recording the vendors solicited. Then, only responding vendors would be recorded on the bid tabulations.

Third, bid tabulations are not prepared on solicitations less than \$2,500.00. We recommend bid tabulations be prepared on all bids.

Fourth, while delivery terms are specified in the bid solicitations, these terms are not recorded on the purchase orders. Therefore, Accounts Payable does not know the delivery terms. Since the purchase order format already has space for delivery terms, we recommend that these terms be shown.

Finally, State University does not prepare Statements of Award on its sealed bids. This statement is required by Regulation 19-445.2090(C) and is maintained as part of the bid file. Statements are provided upon request to vendors. We recommend State University use a Statement of Award on its sealed bids.

UNIVERSITY RESPONSE

In an effort to improve accountability of bidding practices as recommended by the auditors, State University has taken the necessary recommended actions as follows:

- Documentation showing when bids were received as of January 1, 1992 are being kept by time/date stamp.
- We are using a separate list for recording the vendors solicited.

-Bid tabulation sheets are being kept on all bids.

C. Vending Management Contract

State University has a campus wide vending management contract which was entered into on August 15, 1989. Since there was no expenditure to be made by the University, they considered this contract exempt from the Procurement Code. However, the State's policy has been clarified to all concerned that these types of contracts are subject to the Procurement Code. Therefore, we recommend that at the end of this five year contract (August 15, 1994), this contract should be competed in accordance to the Procurement Code.

UNIVERSITY RESPONSE

Upon expiration of the current vending management contract, the University will solicit bids in compliance to the Consolidated Procurement Code.


CERTIFICATION RECOMMENDATION

We must state our concern over the number and variety of exceptions listed in this report. These exceptions indicate that procurement management at State University is needed. Because of this, we cannot recommend recertification at this time.

Prior to February 28, 1992, we will perform a follow-up review in accordance with Section 11-35-1230(1) of the Procurement Code to determine if the proposed corrective action has been taken by State University. Based on the follow-up review, and subject to this corrective action, we will consider recommending that South Carolina State University be recertified at the current levels for a period of three (3) years. The current levels are:

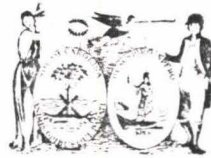
<u>Procurement Areas</u>	<u>Recommended Certification Limits</u>
1. Goods and Services	*\$25,000
2. Information Technology in accordance with the approved Information Technology Plan	*\$10,000
3. Consultant Services	*\$10,000

*Total potential purchase commitment whether single year or multi-term contracts are used.


Robert J. Aycock, IV
Audit Supervisor


R. Voight Shealy, CFE, Manager
Audit and Certification

STATE OF SOUTH CAROLINA
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LUTHER F. CARTER
EXECUTIVE DIRECTOR

March 13, 1992

Mr. James J. Forth, Jr.
Assistant Division Director
Division of General Services
1201 Main Street, Suite 600
Columbia, South Carolina 29201

Dear Jim:

We have returned to South Carolina State University to determine the progress made toward implementing the recommendations in our audit report covering the period of January 1, 1989 - June 30, 1991. During this visit, we followed up on each recommendation made in the audit report through inquiry, observation and limited testing.

We observed that the University has made substantial progress toward correcting the problem areas found and improving the internal controls over the procurement system. With the changes made, the system's internal controls should be adequate to ensure that procurements are handled in compliance with the Consolidated Procurement Code and ensuing regulations.

We, therefore, recommend that the certification limits for South Carolina State University outlined in the audit report be granted for a period of three (3) years.

Sincerely,

R. Voight Shealy, Manager
Audit and Certification

RVS/jjm



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DUE DATE

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